

Best Practice: Determining a Billing Rate

Often the most efficient way to charge staff time to a grant is through a billing rate. A billing rate is the employee's base or direct rate--the rate that shows up on the employee's pay check--plus the "extra costs" that are necessary to keep that person employed. These extra costs--employee benefits such as cost of leave, employee insurance, pensions, and unemployment--are allowable if they are reasonable and required by law, policy, or government-unit employee agreement.

A billing rate may also include administrative costs. Some administrative costs, when they are dedicated to supporting a particular program or project, should be billed directly. Usually, however, administrative support is more broadly allocated. In general, if you can associate a cost with a specific grant, you should charge it to that grant as a direct cost. If a cost supports more than one grant, you should include it in your billing rate.

Definitions

Administrative Cost:

A cost that supports the primary activity or activities funded by the grant. Administrative costs include the overall management of the organization, record keeping, reporting, and related activities.

Base or Direct Rate:

The rate that is reported on an employee's paycheck. It is either his or her direct hourly rate, or the hourly rate that is obtained by dividing the annual salary by 2088: the number of workable hours in a year.

Billing Rate:

An employee's base or direct rate, plus the "extra costs"--employee benefits such as cost of leave, employee insurance, pensions, and unemployment--that are necessary to keep that person employed.

Workable Hours:

The number of hours that an employee could work in a year. It equals 2088¹.

Hours Actually Worked:

The number of hours that an employee actually works in a year. It equals workable hours (2088) minus holidays and vacation.

Example of Billing Rates

The following example shows how one grant recipient arrives at a billing rate for BWSR funded programs and projects. The LGU is staffed by three employees: a district manager, a conservation technician, and an administrative assistant.

¹ The Legislative Coordinating Commission calculates FTEs based on a denominator of 2,088 workable hours in a year. See Minnesota Statutes 2013, section 3.303, subdivision 10.

An employee's base or direct rate is arrived at by dividing his or her yearly salary by 2088 (the number of workable hours in a year).

To arrive at a billing rate, two additions are made to this base rate: 1) a rate/hour for employee benefits, and 2) a rate/hour for administrative costs².

Here is the LGU's statement of expenditures for the year:

	EXPENDITURES	
	Salary and Benefits	
1	District Manager's Salary	\$55,000
2	Conservation Technician's Salary	\$40,000
3	Administrative Assistant's Salary	\$35,000
4	FICA	\$12,000
5	Medicare	\$3,000
6	PERA	\$13,000
7	Health Insurance	\$30,000
	Total Salary and Benefits	\$188,000
	Other Services and Charges	
8	Rent	\$4,000
9	Utilities	\$3,000
10	Employees' Education, Training and Exp.	\$500
11	Professional Services--Licenses	\$2,500
12	Professional Services (Audit)	\$1,000
13	Insurance	\$6,000
14	Software Licenses	\$2,000
15	Vehicle Expense	\$7,000
16	Equipment Repair and Maintenance	\$700
17	Postage	\$400
18	Phone (Land and Cell) and Internet	\$2,000
	Total Other Services and Charges	\$29,100
	Supplies	
19	Office Supplies	\$1,000
20	Field Supplies	\$400
	Total Supplies	\$1,400
	Equipment	
21	Equipment	\$3,000
	Total Equipment	\$3,000
	TOTAL EXPENDITURES	\$221,500

² In this example, "administrative costs" are goods and services like rent, utilities, professional services, equipment, and supplies. Administrative costs do *not* include the staff time of employees of the LGU. Staff time should be billed directly to BWSR grants, not included in an administrative or overhead rate.

Figure 1: LGU's Statement Of Annual Expenditures

Lines 4-7 in Figure 1 = the LGU's costs of benefits for its three employees.

Lines 8-13 and 16-19 = total administrative costs. These are goods and services that are not specific to certain grants, but benefit the LGU's operations as a whole.

	Employee Benefits	
	Total Benefits, Three Employees (Lines 4-7)	\$58,000.00
	Each Employee's Share	
A	District Manager's Benefits	\$23,000.00
B	Conservation Technician's Benefits	\$20,000.00
C	Administrative Assistant's Benefits	\$15,000.00
	Administrative Costs	
D	Total Administrative Costs (Lines 8-13 and 16- 19)	\$21,100.00
E	Each Employee's Share (\$21,100 / 3)	\$7,033.33

Figure 2: Benefits and Administrative Costs, Each Employee's Share

In this example, total administrative costs for the LGU = \$21,100. This can be divided by 3, to arrive at an "administrative share" for each employee of \$7,033.33.

Lines 14-15, 20-21 in Figure 1 = total direct charges. These are other goods and services that are specific to certain grants. They will not be included in the billing rate, because they are billed to those grants directly.

To allow for cost of leave, divide the sum of each employee's salary, benefits, and share of administrative costs by a denominator, not of workable hours, but hours actually worked.

	Hours Actually Worked By Each Employee	
	"Workable" Hours in a Year	2088
	Hours Actually Worked (Workable Hours Minus Leave) By	
F	District Manager	1800
G	Conservation Technician	1850
H	Administrative Assistant	1850

Figure 3: Hours Actually Worked By Each Employee

You will then arrive at billing rates for the three employees of this hypothetical LGU that include allowances for benefits, administrative costs, and the cost of leave.

	Addition to Direct Rate for Benefits	
I	District Manager (Line A / Line F)	\$12.78
J	Conservation Technician (Line B / Line G)	\$10.81
K	Administrative Assistant (Line C / Line H)	\$8.11
	Addition to Direct Rate for Administrative Costs	
L	District Manager (Line E / Line F)	\$3.91

M	Conservation Technician (Line E / Line G)	\$3.80
N	Administrative Assistant (Line E / Line H)	\$3.80

Figure 4: Additions To Individual Employee's Billing Rates for Benefits and Administrative Costs

In summary—

Calculation of Billing Rates Charged to BWSR Grants			
Formula	District Manager	Conservation Technician	Administrative Assistant
Salary / Workable Hours =	\$55,000 / 2088 =	\$40,000 / 2088 =	\$35,000 / 2088 =
Direct Rate	\$26.34	\$19.16	\$16.76
Salary / Hours Actually Worked =	\$55,000 / 1800 (line F) =	\$40,000 / 1850 (line G) =	\$35,000 / 1850 (line H) =
Direct Rate	\$30.56	\$21.62	\$18.92
Direct Rate + Prorated Benefits	\$30.56 + \$12.78 (line I) =	\$21.62 + \$10.81 (line J) =	\$18.92 + \$8.11 (line K) =
	\$43.33	\$32.43	\$27.03
Direct Rate + Prorated Benefits +	\$43.33 + \$3.91 (line L) =	\$32.43 + \$3.80 (line M) =	\$27.03 + \$3.80 (line N) =
Prorated Administrative Costs	\$47.24	\$36.23	\$30.83
BILLING RATES	\$47.24	\$36.23	\$30.83
Billing Rate * Hours Worked =	\$47.24 * 1800 (line F) =	\$36.23 * 1850 (line G) =	\$30.83 * 1850 (line H) =
True Cost of Employees	\$85,032.00	\$67,025.50	\$57,035.50

Figure 5: Calculation of Billing Rates Charged to BWSR Grants, Summary

Billing rates must be based on actual costs. When actual costs are not available for the year being calculated, they can be taken from the previous year's financial statements. Similarly, the leave hours subtracted from the workable hours to arrive at the number of hours actually worked can be holiday and vacation hours taken during the previous year. Subtracting hours accrued rather than actual hours taken is not allowed. A separate billing rate should be calculated for each employee. Rounded billing rates, or a single rate that is the average rate for all employees of an organization, while they may be used for estimating budgets in work plans, are not allowed for charging staff time to BWSR grants. Billing rates should be reevaluated annually.

Billing rates used to charge staff time to BWSR grants may not include an allowance for administrative or indirect costs made up of the salary and benefits of LGU employees who are not working directly on grant activities. BWSR provides general, program and operations grants (i.e., Local Water Management, Conservation Delivery) to pay for administrative activities directly. Staff time for Administration/Coordination, Project Development, and Technical Assistance activities can and should be directly charged to BWSR grants.

In summary, costs that are charged to BWSR grants—staff time, goods and services, outside consultants or contractors—must be direct and necessary to produce the outcomes funded by the grant. If you can associate a cost with a specific grant, you should charge it to that grant as a direct cost. If you are unsure whether a cost should be included in your billing rates or directly charged to a program or project, we recommend that you charge it directly. For example, if you buy a piece of equipment to use on a particular grant, it should be charged as a direct cost to that grant. Costs that you are charging directly cannot also be included in any billing rate calculation. If you are unsure of how to charge a cost

to a BWSR grant, or whether a cost is allowable at all, consult with your Board Conservationist or Grants Compliance Specialist. Whatever you charge to the grant must be itemized and documented.

During the verification process, you will be asked to provide your supporting calculations for your billing rate, and discuss your justification for the allowances that you include within it.